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Financial Crisis Report

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Advancing in a Time of Crisis

Except for the Great Depression, we are experiencing the most economically unstable period in the history of the modern world. This period will be marked with extreme fluctuations in the stock, commodity and currency markets accompanied by severe and sometimes violent social disruptions. As is typical of such times, many fortunes will be made and lost during this period. After talking with many business owners, executives, professionals and government officials from around the world, the writer believes that for the financially astute investor, this is a time of unprecedented opportunity given the global trade unbalances and distortions in the commodity and currency markets. The *Financial Crisis Report* is a free compilation of the opinions of David Miyoshi as well as of those advisors he himself subscribes to (with appropriate credits given) on how to benefit during this time of crisis. The writer receives no compensation of any kind from any advisors whose articles or ideas may appear in this report. The reader is welcomed to check on all sources of information mentioned herein. Because the opinions and observations of this writer and other advisors are provided herein without charge, the reader is asked to make his/her own judgment on the contents.

WAR IN THE MIDEAST?

The other day someone asked me if I thought gasoline would get more expensive.

I told them of course it will! In history, given enough time, anything… not to mention everything… will happen. But I have a sneaking suspicion gasoline will rise sooner than expected.

Sooner than expected because the energy market seems blissfully unaware of the imminence of the next war in the Middle East. The world's financial markets are completely discounting the very real possibility of an Israeli-Iranian war. Years of anger, threats and caustic rhetoric have put the so-called "experts" to sleep. Their blindness is incredibly dangerous for everyone.

Sooner because I think Israel is getting ready to pull the trigger. Look what's happening right now. Israeli jets are currently flying into Syria and Lebanon, disabling air-defense systems. Why? They are clearing the path for a first strike against Iran's nuclear missile launchers.

Israel's Benjamin Netanyahu is not kidding. He will not allow Iran to have nuclear weapons. If he can't stop them through negotiations, he will do whatever it takes. This is not an observation made because I take the side of Israel. It is an observation made based on the events that I see are preceding it.

Most people discount the possibility of an Israeli "first strike" for logistical reasons. They believe Israel would need U.S. cooperation to strike deep inside Iran. We could certainly make it easier for them. The U.S. could provide aerial refueling and other support while Israel drops the bombs.

With his nation's very survival at stake, Netanyahu is also preparing to go it alone.

Some think Iran's newly elected Hassan Rouhani, who takes over as president, will extend an olive branch. This is pure fantasy!

Rouhani is a wolf in sheep's clothing. He was hand-picked by Iran's Supreme Leader Ali Hosseini Khamenei for two purposes.

First, Rouhani needs to satisfy Iran's increasingly restless public. The massive protests of the last few years represent a real threat to Iran's theocratic regime. The daily struggles created by economic sanctions are real. Rouhani must convince them he is working to end the country's economic isolation.

Second, Rouhani will buy time with the Western powers by pretending to be a moderate, reasonable leader. Meanwhile the nuclear and missile programs will move forward. The Iranian regime believes that once it has nuclear warheads and missiles to deliver them, it can force an end to the devastating economic sanctions.

But I am afraid the U.S. and Iran underestimate Netanyahu's willingness to go to war. One way or another, he will stop Iran from obtaining nuclear weapons. To Netanyahu, high gasoline prices are a big inconvenience. But the death of his countrymen is unthinkable.

Netanyahu's "Face the Nation" appearance recently was a clear warning to the United States and other world powers. Incredibly, almost no one noticed.

The Obama administration is not blind. They know war between Iran and Israel is all but certain. They are doing all they can to postpone the inevitable.

The U.S. has its own reasons to stop Iran. So do other regional powers like Saudi Arabia. They simply want Israel to do the dirty work.

The good news: Iran will not have a chance to nuke Israel.

The bad news: The war to stop it will be ugly.

Here is a possible scenario of what will happen as told by James DiGeorgia editor of Global Resource Hunter:

- An Israeli strike on Iran nuclear facilities and missile development infrastructure will lead to ...
- Vicious air war over Syrian, Lebanese and Iraqi airspace, followed by ...
- An Israeli land invasion of Lebanon to neutralize Hezbollah's rocket capacity, while ...
- Iran tries to choke off oil exports through the Strait of Hormuz!

Then it will get even worse ...

- Egypt's paramilitary Muslim Brotherhood will obstruct the flow of oil through the Suez Canal.
- The final blow: an Iranian missile strike on Saudi oil fields.

When all this happens — and it will — world markets will suffer the worst one-day loss since 9/11. Crude oil could skyrocket to as high as $250. I expect to see gold make jumps of $200 or more.

If U.S. carrier groups in the Arabian Sea come under fire, we could see $300 oil and $2,000 gold — or even more!

There will be wild swings in the commodities and equities markets that will present huge opportunities to profit from.

Whatever you do, keep your eyes open and prepare for the inevitable. You can survive — and even profit — from the trouble ahead.

D. Miyoshi

Euro's Prognosis

The consensus of economic pundits has been that the Euro will soon crash and burn and that it is one of the biggest economic miscalculations of the 20th century. I would agree that it was not one of the best planned monetary exchange schemes in recent memory. But to place full faith and credit in news articles predicting its imminent demise is another thing.

As Jeff Opdyke of *The Sovereign Investor* writes "It's news if the euro collapses; it's just another day if it doesn't. So, reporters play up the currency's theoretical demise to keep readers and viewers interested until the next news cycle".

Yet, none of that changes the reality on the ground in Europe. And that reality is the euro is not going to die. Europe can't let it die. Germany won't let it die.

We have heard all the arguments against the euro. How Europe has spent centuries warring and ancient animosities still simmer. How Europeans will never overcome cultural and language barriers. How industrious northern Europeans despise what they see as slothful neighbors in the south, and how southern Europeans despise the anal-retentive north.

All true. But all irrelevant.

Only one fact matters, and that's money. Follow the money, and you will almost always find the truth.

THE COMING ECONOMIC WINTER

United We Stand. Separate ... We're Useless

The truth in the euro zone is that if the euro goes away, then all the old currencies and border crossings return out of necessity, and Europe basically becomes Disneyland - a nice place to visit, but sort of useless beyond that for global companies.

As part of a single bloc of more than 330 million consumers, the euro zone is the largest unified consumer population in the world, and every global exporter wants a footprint there. But as a bunch of fiefdoms surrounding Germany, the individual countries make little sense for

global exporters that demand scale.

Does any multinational really care about Estonia, Slovenia or even Ireland - populations that combined don't even match Los Angeles County? The entire continent, save Germany, the U.K. and possibly France and Italy - maybe Spain - would become all but meaningless to Chinese and American exporters.

As it is now, non-European companies find great efficiency shipping goods into major ports in the Netherlands, Belgium and Germany, and then dispatching them across the European Union to the 27 member states. Because of the various treaties that created the EU - and what is at the moment the 17-nation euro zone currency bloc - goods cross borders without tariffs , without all the border-crossing permits that were once necessary , and without the cost of converting marks into francs or lira into pesos.

In effect, operating within the euro zone is as seamless as shipping goods from a manufacturing plant in Georgia to a distribution center in California.

But dismantle the euro zone and it's the same as having to stop at every state border to check paperwork - a highly inefficient process, which would increase the time to get goods to market. It also means the added costs of different regulations in each country.

And of all the countries that realize this, Germany sits atop the pile.

<u>Why Germany Can't Let the Euro Die</u>

It doesn't matter how many Germans hate the Greeks or hate the euro and want to return to their old German marks.

That's not going to happen. Period.

Germany's export-dependent economy has been one of the biggest euro beneficiaries because the bulk of Germany's output goes to European countries. Kill the euro and return to the various individual currencies and suddenly the mark soars against the drachma, peso and Slovenian tolar.

Moreover, numerous German companies have established manufacturing plants in countries like Slovakia, Slovenia, Poland and Hungary (the last two have not yet joined the euro, though they are in EU). If the euro crumbles, thus undermining the EU, all those German manufacturing plants that make clear financial sense in a unified economy, suddenly make less sense in fragmented economies with all the added costs.

Without the myriad financial, logistical and operational benefits of the euro, the German economic miracle perishes.

German industry knows this. German industry, as does industry in every industrialized economy, pulls the levers in politics. And German industry simply will not allow the euro to perish - to heck with German citizens and their knee-jerk reactions to bailing out Greeks and Spaniards.

Nevertheless, we have to love the euro-skeptics ... because every time they get their rear end in a knot over the latest euro zone hiccup, they punish stocks, leaving behind good values for investors who believe the euro is going to be around for a long time.

D. Miyoshi

The following article is written by Harry S. Dent, Harvard MBA and editor of *Boom & Bust* (boomandbustinvestor.com). Mr. Dent is one of my favorite economic analysts.

The Coming Economic Winter

We live in times of unprecedented scientific advances and expanded predictability. Yet most economists, politicians, businessmen, and investors fail to recognize the most powerful insight in modern times: that our economy, stocks, bonds, real estate, and commodities have clear — predictable — seasons.

THE COMING ECONOMIC WINTER (continued)

They miss this point because most of them focus on symptoms, not causes. They spend too much time analyzing government policies… policies that are largely reactions to the very cycles the politicians themselves fail to notice.

This is unfortunate. Missing this fact costs them financially… They are blinded to the opportunities these economic "seasons" present and so they lose countless chances to profit. They even fall victim to losses they could otherwise have avoided.

Just look at what happened to investors when stock markets topped in 1929, 1968 and 2007. They piled into overheated markets and were crushed when everything fell off a cliff.

They didn't see the end of the 39-year Spending Wave cycle coming. They paid dearly for it. Commodities topped in 1920, 1951 and 1980. Again, investors snapped up precious metals and the like when they were already overpriced. Then they lost their money as these commodities *predictably* deflated. They ended up holding metals worth far less than what they paid for them.

When you see the cycles — 39 years for the spending wave and 29 years for the commodities cycle — it looks almost impossible to miss. Right?

The problem is that most investors don't get to see the macro picture. They tend to focus on shorter-term cycles that may be nothing more than steps in the broader cycle. Because that's just what they know. But, knowing the patterns and cycles that markets, economies, stocks and commodities follow gives you an advantage over everyone else.

So which economic cycles do you need to be aware of so you can profit from the opportunities ahead and protect against the coming disasters…

The Most Powerful Cycle of All: The 80-Year New Economy Cycle

The 80-year New Economy cycle has four seasons:

Spring: the Maturity BOOM.

Summer: the Inflationary Bust.

Fall: the Growth BOOM.

Winter: the Deflationary or Shakeout Bust.

Since the early '40s, we have experienced three of these New Economic seasons. During the Spring of 1940 to 1965, stocks and the economy surged upward. They peaked around the mid-'60s and then deflated during the summer of '65 to '80.

Once they reached bottom, they turned back up and investors enjoyed a massive Fall season-type boom between 1980 and 2007.

Now, stocks and the economy are heading back down to near early Spring levels. They will only begin to move back up again around 2020, when the New Economy Spring comes around again.

These seasons have occurred time and again since economies began and stocks joined the party. The booms tend to last 26 years and the busts around 14 years (give or take a few years on either side of the turn).

If you recognize these cycles, and plan your investment strategies accordingly, you have the power to earn greater profits and avoid catastrophic losses. So, now that we're heading into the New Economy's Winter, here's what you need to do…

What to Put into Your Winter Portfolio NOW

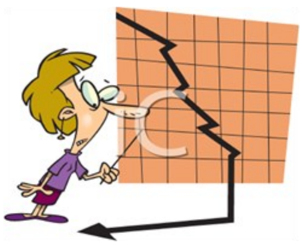
This Shakeout Season, which started in 2007, is one of deflation and depression. The businesses that barely survived the crash in the early 2000s — most of them in the growth sector — will go under now.

Asset sectors that bubbled during the summer season will experience a massive correction — like real estate and credit markets — and then they will underperform for most of the next 13 to 14 years.

Only the fittest will survive to see the next season. They will become the next Fortune 500 leaders. This means traditional portfolio allocations and investments will become as risky as climbing into a boxing ring blindfolded.

THE COMING ECONOMIC WINTER (continued)

Advancing in a Time of Crisis



Financial Crisis Report

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He is CEO of Miyoshi Capital LLC, an international investment advisory company. In Vietnam, he led a Combined Action Platoon as an officer in the U.S. Marine Corps.

He is listed in 14 Who's Who publications and specializes in international business and finance.

All of which is to say, stay away from technology and professional service companies… sell your commodities and hold cash instead.

Expect to see three stages during this winter shakeout: the crash as the bubbles burst in 2007, a recovery rally based on government intervention and a recovery and bear market rally. You'll see this between mid-to-late 2013 and 2014. During the last stage, there's a final recession and slowdown. This will run from 2017 to 2020.

To survive and prosper through this Economic Winter Season, it's crucial you change your long-term investment strategies now. Here's what we suggest you do…

Step #1: Allocate a percentage of your portfolio to 20-year corporate bonds when yields go to extreme highs as fear grips the markets.
Step #2: Look to invest in Asian stocks focused on India, South Korea, Japan, and Vietnam. Also get U.S. multinational, technology and health care stocks. Note: You must time your entry into these markets carefully. Be sure to read your monthly issues of *Boom & Bust* because that's where we'll give you the details about when and how to profit from this step.
Step #3: Sell stock allocations and reallocate toward T-bills or money markets and bonds.
Step #4: Look to add long-term municipal bonds to your portfolio. Do this when yields seem to be peaking. Again, we will tell you when yields start to peak so don't miss any issues of *Boom & Bust*.
During the Recovery and Bear Market Rally (2012 — 2015)…
Step #5: Make medium-term allocations in stocks and long-term bonds.
Step #6: Focus on Asian stocks and invest in U.S. multinationals, technology and professional services.
Step #7: Buy Treasury or municipal bonds.
Step #8: Invest in real estate, particularly apartments and starter homes for echo boomers and vacation or retirement homes for aging baby boomers. We have a company in our *Boom* portfolio that does just that.

During the Final Recession and Slowdown

For the final leg of this shakedown — between 2017 and 2022 — change your portfolio allocations again…

Step #9: First, sell stocks in all sectors.
Step #10: Convert back into long-term bonds and T-bills or money markets.
Step #11: Then selectively buy leading sectors of stocks like health care, financials and technology.
Step #12: And avoid investing in East Asia, namely China, Japan and South Korea. These markets will correct into the early 2020s.

The value of seeing the economic cycles ahead extends beyond your investment plans.

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